

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-03 COME-00 DODE-00 FPC-01 H-03 INR-11 INT-08

L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01 SCI-06

SP-03 SS-20 STR-08 TRSE-00 FRB-03 FEA-02 XMB-07

OPIC-12 LAB-06 SIL-01 PA-04 PRS-01 USIA-15 DRC-01

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R 191935Z AUG 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 5401

C O N F I D E N T I A L CARACAS 7989

E.O. 11652: GDS

TAGS: EINV, ENRG, OPEC, OECD, VE

SUBJ: FOREIGN DIRECT INVESTMENT BY OIL PRODUCING NATIONS

REF: (A) STATE 178868: (B) CARACAS 6370

1. VENEZUELA HAS CHOSEN TO ESTABLISH AN INVESTMENT FUND AS THE MAIN VEHICLE TO ABSORB ITS EXCESS FINANCIAL RESERVES GENERATED FROM OIL. THE

FUND IS DESCRIBED IN CARACAS REFTEL, BUT ESSENTIALLY IS DESIGNED TO CHANNEL ONE-HALF OF OIL REVENUES OUT OF THE DOMESTIC ECONOMY IN ORDER TO TEMPER THE INFLATIONARY EFFECTS THAT WOULD OTHERWISE RESULT. FIRST PRIORITY TO USAGE FOR THE FUND WILL BE TO FINANCE EXTERNAL COSTS OF MAJOR INFRASTRUCTURE INVESTMENTS IN VENEZUELA, NOTABLY IN PETROCHEMICALS, STEEL, SHIPBUILDING, ENERGY AND AGRICULTURE. OTHERWISE THE FUND WILL BE UTILIZED LENDING TO WORLD BANK, IMF, OTHER INTERNATIONAL AND REGIONAL BANKS AND AGENCIES, TO LDOS AND FOR INVESTMENT IN APPROPRIATE

JOINT VENTURES ABROAD.

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2. UNLESS THE FINANCIAL RESERVES GROW TOO RAPIDLY TO BE ABSORBED

READILY BY THE INVESTMENT FUND, VENEZUELA/DOES NOT COMPLEMENT
LONG-TERM DIRECT CAPITAL INVESTMENTS IN THE UNITED STATES. THEREFORE,
THE GOV WOULD PROBABLY NOT REACT TO AN EFFORT TO PROMOTE MORE
ACTIVELY FOREIGN DIRECT INVESTMENT IN THE U.S.

3. ON THE OTHER HAND, THE INVESTMENT FUND MIGHT BE VIEWED AS THE
VENEZUELAN SAFEGUARD AGAINST A U.S. POLICY TO IMPOSE RESTRICTIONS
ON DIRECT FOREIGN INVESTMENT. IN A "FORBES" MAGAZINE ARTICLE ON JULY
15, 1974, THE FOLLOWING COMMENT APPEARS: "VENEZUELA WILL ALSO
TRY TO INSURE THE CONTINUING FLOW OF TECHNOLOGY BY INVESTING
OFFSHORE IN JOINT VENTURES WITH HIGH TECHNOLOGY COMPANIES OR BUYING
THEIR STOCK, ADDS MINISTER RODRIGUEZ (CORDIPLAN CHIEF), SMILING
SOMEWHAT MISCHIEVOUSLY:"BUT WE ARE NOT GOING TO TRY TO BE THE
MAIN CONTROLLING INTEREST IN ANYTHING BECAUSE AMERICA MIGHT
BECOME ANTI-IMPERIALIST HERSELF AND NATIONALIZE OUR INTERESTS OVER
THERE"

4. IF, IN ANYWAY, THE GOV COULD ASSOCIATE A RESTRICTIVE U.S.
FOREIGN DIRECT INVESTMENT POLICY AS A WEAPON TO DRIVE DOWN
OIL PRICES, VENEZUELA COULD BE EXPECTED TO REACT NEGATIVELY.
IF VENEZUELAN OIL REVENUE CANNOT BE ABSORBED BY THE INVESTMENT
FUND, OR BE PROTECTED AGAINST INFLATION IN THE INTERIM THROUGH
INVESTMENT FUND, OR BE PROTECTED AGAINST INFLATION IN THE INTERIM
THROUGH INVESTMENT IN THE DEVELOPED COUNTRIES CAPITAL MARKETS,
THE GOV WOULD CERTAINLY BE TEMPTED TO CUT OIL PRODUCTION.

5. ANY ALTERATION OF TRADITIONAL U.S. POLICY ON INWARD DIRECT
INVESTMENT WHICH WOULD RESTRICT VENEZUELAN PARTICIPATION, WOULD HAVE
TO BE CAREFULLY CONSTRUCTED SO AS NOT TO APPEAR DISCRIMINATORY
AGAINST OIL PRODUCING COUNTRIES. ADVANCED CONSULTATION WITH
AFFECTED COUNTRIES SHOULD ALSO BE CONTEMPLATED IN ORDER NOT
TO CATCH THEM UNAWARE, THEREBY POSSIBLY PRECIPITATING HASTY AND
DAMAGING REACTIONS ON THEIR PART.
MCCLINTOCK.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, FOREIGN INVESTMENTS, INVESTMENT PROGRAMS, GOVERNMENT REVENUES
Control Number: n/a
Copy: SINGLE
Draft Date: 19 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974CARACA07989
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740228-0380
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740838/aaaabfvw.tel
Line Count: 95
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: (A) STATE 178868; (B) CARACAS 6370
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 23 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 SEP 2002 by boyleja>; APPROVED <26 FEB 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FOREIGN DIRECT INVESTMENT BY OIL PRODUCING NATIONS
TAGS: EINV, ENRG, VE, OPEC, OECD
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005